



1917



## Economic Conditions Governmental Finance United States Securities

NEW YORK, JULY, 1917.

### Draft and Loan.

**T**HE two most significant events of the month just closed were, first, the orderly and willing registration of nearly 10,000,000 men of and between the ages of 21 to 30, for the service of the country, as they may be selected and assigned to duty by the government; and, second, the offering of \$3,035,226,850 by the people in response to the government's call for subscriptions to an issue of \$2,000,000,000 of 3½% bonds.

The registration was accomplished so quietly and readily as to dispose of the idea that any important number of persons were disposed to challenge it, and the loan was a splendid success, not alone in the fact that it was fifty per cent. over-subscribed, but especially in the broad distribution obtained. No less than \$1,296,684,850 was subscribed in sums of not over \$10,000, and \$1,856,787,900 in sums of not over \$100,000. Even these remarkable figures do not tell the full story of small contributions, for most of the large subscriptions were made by corporations and the corporations to an important extent are owned by small stockholders.

The precise number of subscribers has not yet been ascertained, but the preliminary announcement indicates that it exceeds 3,000,000, which surpasses the first loan record of any other country. This is exceedingly gratifying, because it gives a glimpse of the great resources behind the government in this struggle. It shows how broad is the support, both of public opinion and of financial resources.

Single loans running into the billions were unknown until this war, and a billion dollars is a sum so unrelated to the ordinary affairs of life as to be almost incomprehensible. After the success of foreign governments in raising billions it was to be expected that the United States could do the same, if the people were aroused to the necessity for individual action, but grave misgivings were felt upon this point. The rate of interest would not in itself make the loan attractive to the average investor in this country, and there was apprehension that the small investor might think any subscription

that he could make would be an insignificant factor in a total of such magnitude. The results show that the small subscriptions were very important in the aggregate. Moreover, it was highly important that the loan should have a broad distribution, and be actually taken up out of current earnings, in order to keep the way clear for future offerings. The banks can be of great assistance in distribution, but in financing a great war it is necessary to enlist the co-operation of the entire population, for financing in the last analysis means a shifting of expenditures from peace channels into war channels, and this shift can only be accomplished as the people themselves undertake to curtail their personal expenditures for the purpose of paying money into the Treasury.

### British and German Loans.

It is of interest in this connection to review the loans that have been issued by the British and German governments, with the number of subscribers for each.

#### BRITISH WAR LOANS.

	Approximate Amounts	Number of Subscribers
First war loan.....	\$1,750,000,000	Not stated
Second " ".....	3,080,000,000	1,100,000
Third " ".....	5,000,000,000	5,289,000

#### GERMAN WAR LOANS.

First war loan.....	\$1,120,000,000	1,177,000
Second " ".....	2,250,000,000	2,691,000
Third " ".....	3,040,000,000	3,992,000
Fourth " ".....	2,690,000,000	5,279,000
Fifth " ".....	2,675,000,000	3,809,000

The best thing about it is the demonstration of the homogeneity of our people, and the high degree in which they possess the faculty of organization and co-operation. Every state and sub-division of the states was quickly organized by local effort, a canvass was made which brought home to each person the reasons for and means of participation, and the response was remarkable for its spirit and unanimity. The campaign reached its highest effectiveness on the last day the lists were open, and there is every reason to believe that the experience gained and interest aroused will be turned to good account on the next offering.

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It is particularly gratifying that our foreign-born citizens participated in the campaign as heartily as the native-born, and that the communities where the population was largely of German extraction generally made as good a showing as others.

#### The Allotment.

The Secretary of the Treasury gave notice when the announcement was made that no more than \$2,000,000,000 would be accepted under this offering, and the over-subscription therefore necessarily involves a scaling down of subscriptions. From every standpoint it is desirable that this scaling shall be applied to the larger subscriptions, and the Secretary has announced the allotment as follows:

Amount of subscription	Total Subscribed	Per Cent. Allotted	Total Allotted
Up to and including \$10,000...	\$1,296,684,850	100%	\$1,296,684,850
Over \$10,000 and up to and inclgd \$100,000 ....	560,103,050	60% but not less than \$10,000	336,061,850
Over \$100,000 and up to and inclgd \$250,000 ....	220,455,600	45% but not less than \$60,000	99,205,000
Over \$250,000 and up to and inclgd \$2,000,000 ..	601,514,900	30% but not less than \$112,500	184,381,500
Over \$2,000,000 and up to and incl. \$6,000,000	234,544,300	25% but not less than \$600,000	58,661,250
Or \$6,000,000 & up to and inclgd \$10,000,000 ..	46,674,150	21%	9,801,500
\$25,000,000 ....	50,000,000	20.22%	10,110,000
\$25,250,000 ....	25,250,000	20.17%	5,093,650
Total ....	\$3,035,226,850		\$2,000,000,000

The subscriptions by Federal reserve districts compared with the minimum allotment informally prepared by the Treasury department are shown below:

District:	Minimum Allotment	Actual Subscription
New York .....	\$600,000,000	\$1,186,788,400
Boston .....	240,000,000	332,447,600
Philadelphia .....	140,000,000	232,309,250
Cleveland .....	180,000,000	286,148,700
Richmond .....	80,000,000	109,737,100
Atlanta .....	60,000,000	67,878,550
Chicago .....	260,000,000	357,195,950
St. Louis .....	80,000,000	86,134,700
Minneapolis .....	80,000,000	70,255,500
Kansas City .....	100,000,000	91,758,850
Dallas .....	40,000,000	48,948,350
San Francisco .....	140,000,000	175,623,000
Total .....	\$2,000,000,000	\$3,035,226,850

As a result of cutting down the large subscriptions the New York district only receives \$621,218,000, or approximately 52 per cent. of the amount applied for.

Following the campaign for the loan, the campaign to raise \$100,000,000 for the Red Cross scored another splendid success, with an over-subscription of about 20 per cent., furnishing additional evidence of willingness to meet in ample measure the heavy burdens which the war must entail.

#### Value of National Unity.

The spirit of unity exhibited in the United States during the past month is the more impressive because of the contrast with the confusion existing in Russia and China. Both of these great nations have seemed to be on the verge of dissolution through sheer want of knowledge of the practical operation of democratic institutions. It is not strange that this knowledge should be wanting with them, for it can be gained only by experience. No theoretical study of principles will give the schooling required to make democracy a working success; the practical touch comes only as men try to live together upon terms of amity and mutual helpfulness, and learn the essential virtues of faith, forbearance and compromise.

The first thing to be learned by all social reformers is that, as a primary condition, reforms must be accomplished without interrupting the daily business of life. When a railroad company wants to replace an old bridge with a new and better one it doesn't tear away the old one to begin with and suspend traffic until the new one is constructed. The old bridge is kept in use until part by part it is transformed into the new one, or until the new one is fully ready to take its place. It is even more important that reforms in our social and political life shall come by gradual change and development.

The Russian people are not without experience in self-government; their village governments have afforded a good degree of preparatory schooling, and it is evident that through the Zemstvos unions and the Duma a very tangible national organization for the expression of the popular will had developed, even before the dynasty was overthrown. Nevertheless, the change from the rule of the Czar to a regime of complete freedom, with an absolutely new book in which to write their will, and with no restraints upon discussion, was a very great change. It is no wonder that there has been confusion of tongues and of purposes; the wonder is that so great a degree of self restraint has been maintained. An American associated with this Bank in Russia in a letter to us says:

I place a great deal of faith in the Russian people and in their good sense. The days of revolution in Petrograd were wonderful. One thing especially raised my estimation of the Russians even more than the wonderfully well conducted revolution as a whole. In the basement of the building where I lived were stored 8,000 bottles of wines and vodka, the property of the house owner who was very wealthy. The soldiers, common privates, learned of this cellar and poured in there in hundreds. I was absolutely astonished to hear them smashing all of the bottles. Only a few tried to take some away and these were prevented by the rest. This was a revelation when you consider that Russia was before the war the greatest drinking nation on earth. Had not the other stores of wines and vodka in various parts of the city been similarly treated, Petrograd would really have been a city running in blood.

The utmost sympathy for the Russian people in this crisis is felt in this country, and in all the allied countries, mingled of course with concern that the new-found liberty shall not lapse into mere disorganization and anarchy, rendering the nation incapable of constructive effort, and ending, possibly in civil war. Information from the best sources is to the effect that there is no probability of Russia making a separate peace, but that time must be allowed for the new organization to take form and become effective.

#### **Disorganizing Influences.**

After all is said that may be in self congratulation upon the spirit of patriotism manifested in this country, the spirit of disorganization shows itself often enough to give us warning that, although kept in check by the practical sense of our people, it is always at work even here, an element of discord which impairs our strength and efficiency.

Freedom of discussion is fundamental in a democracy, but majority rule, and a loyal acceptance of the policies of the government when lawfully determined, are also fundamental. Democracies cannot live and serve their people unless the democratic form of government can be made effective. Liberty doesn't mean the right of a minority to frustrate the will of the majority or weaken the nation's power.

Democracies are efficient according to the intelligence of their people, the unity of purpose among them, and the degree in which they put faith in each other, and are willing to compromise or yield in honest differences of opinion. Where differences occur it is inevitable that there must be compromises or that one side must give way, but when the decision has been made the nation is entitled to have its full strength for action. It is therefore nothing less than treason to counsel defiance of the conscription law or advise against subscriptions to the government loans, and especially so when such influence is exerted by insidious representations that the war has been brought on by secret influences or for unworthy motives. Nothing could so weaken the spirit of unity now necessary to victory as the insinuation, if believed, that this is a class war, brought on by rich men to serve their purposes. The qualifications of a people for self government may be judged by the reception they give to such vile assaults upon their own national honor. There can be no effective national or social organization if every idle and malignant suspicion or rumor affords justification for disloyalty to the organization.

#### **Slanders Against Our Allies.**

Next to charges of this character brought against our own people and our own government are to be classed charges equally reckless and untrue against our allies, alleging or insinuating that their purposes are other than what they avow, or that they are not doing their full part in

the war. Where there are several allies there is opportunity for disorganizing influences to work by such methods, and the country should be on its guard against them. A Senator of the United States is quoted as recently lending dignity to the charge that Great Britain was holding back her own armies from battle in order that the losses might fall more heavily upon her allies. That contemptible slander had its origin early in the war when England had almost no army, but was imperilling all that it had. We are near enough to Canada to know the efforts which that colony is making for the British cause, and none know better than the Canadians what the armies of England are doing. The casualty lists of all British forces are sufficient to refute such statements. The charge implies treachery to their own colonies and to their own troops who are dying on battle lines, as well as treachery to the Allies. Such statements would be too puerile to be noticed if they did not impose upon the credulity of men who occupy stations of influence, but when given such sanction they become as damaging as reinforcements to the enemy.

#### **Sensational Gossip.**

We may pass beyond the statements directly prejudicial to the government and to our allies, and refer also to the very numerous allegations of a sensational nature, the effect of which is to impair mutual confidence and create dissension. A Senator speaking from his desk in the Senate said recently that he understood the profits of each of the two leading beef-packing establishments last year amounted to \$125,000,000, and the telegraph spread the statement in the newspapers of the country the next morning. Now the reports of the two leading beef-packing companies for their last business year, had been printed, distributed to their thousands of stockholders and summarized in the financial columns of the newspapers. The information was easily accessible, and the facts are that the profits of the concerns referred to were scarcely one-sixth of the sum stated. No doubt the Senator was misled, but the effects were the same. His case is only an example of others in high places and deplorably numerous. This is no time for responsible men to give currency to irresponsible statements which are certain to create ill-feeling. The fact that a speaker is attacking what he believes to be an evil, is no justification for misrepresentation. The first step in dealing with any condition is to learn the real facts about it.

The same comment may be applied to a vast amount of criticism directed at the government itself, including Congress. It is no time for recrimination and reckless speech, which undermines the confidence of our people in their government and in each other. It is a time when an obligation rests upon every one to inform himself upon



what he is talking about, and to give his influence for national unity and effectiveness instead of for disorganization.

In one of the darkest periods of the Civil War Mr. C. C. Bond, a Chicago lawyer of high character and a friend of President Lincoln, being in Washington, called upon the President. Immediately after the greeting the latter said, "Tell me, what do the people in Illinois say about this war?" Mr. Bond replied:

"Mr. President, you remember the American House at Ottawa?" (The Supreme Court of Illinois then held sessions at Ottawa.) "I was down there last week and in the hotel office found people in groups discussing the war. I approached one group where a man was gesticulating and talking in a loud voice about gold being 210 and the country going to the devil. I saw a young man with an eager, intelligent face turn on the speaker and say, 'Gold! What do you know about gold? I don't believe you ever saw any; I don't believe you have got a dollar on you now. To Hell with gold! Pitch in and help win this war, and save the country!' Mr. President, I think that is about the way the people of Illinois feel."

### Community Interest in Efficiency.

The enormous strain upon all our productive resources at this time, and the loss to all where any industry fails to meet the demands upon it, offer a convincing lesson of the community interest in efficiency everywhere. It is obvious enough now, but we have not been accustomed to recognize it, or at least to act upon it. If an individual was inefficient, we have simply assumed that it was his own fault and his own loss, and of small concern to anybody else, although the whole community suffered by his failure to contribute as he might to the common welfare. It is more than possible that great permanent benefits will result from the co-operative efforts that are now being put forth to meet the war emergency.

The work that county committees are doing, surveying agricultural conditions, finding out precisely what help each farmer is needing, if he needs any, studying local resources and planning for increased production, is work that ought never to cease. These committees should never be discharged. They should be connected up with all the other commercial and social organizations so as to be representative bodies through which all the energizing and constructive forces of the community can work. The county agent is a functionary who has suddenly assumed great importance. The Agricultural Commission of the American Bankers' Association has adopted the slogan "A County Agent for Every Agricultural County," and it should have the co-operation of all bankers until that objective is reached. The county agent is an effective instrument in the hands of a county committee composed of leading business men, and his influence can be multiplied many times over by having such a committee behind him.

Our correspondence with local bankers in recent weeks has brought out many interesting suggestions. The Bank of Salem, Indiana, wrote:

We have made arrangements to test all the seed corn used this spring at our local high school, and to increase the acreage of corn possibly 7,000 to 10,000 acres. And with the seed tested and favorable weather we will increase our corn crop over 1,000,000 bushels.

The idea of correlating the work of the schools to the productive work of the community has great possibilities in it.

The Parkersburg National Bank, West Virginia, says:

In this county, we have an Agricultural Agent and his work among the boys and girls has been very successful. Our bank co-operates with this agent and gives yearly prizes in money. Last year there was inaugurated a pig club, in which the bank agreed to take the boys' notes for the year in payment of the pigs. There were seventeen members last year and sixteen pigs were brought to town, for show, in the fall. This year there will be sixty in the club.

The First National Bank of Las Vegas, New Mexico, writes:

For the last two years, two of the largest wholesale houses here, The Charles Ilfeld Co., and Gross-Kelly & Co., the San Miguel National Bank and our own bank have formed what we call the Inter-County Seed Distributing Company. We four have advanced equal funds and bought seed which we have furnished to all the farmers in the counties of San Miguel, Mora and Guadalupe, that desired them. These seeds were furnished to them without any cash payment, taking their notes, payable at the end of the harvest time with the rate of interest at 6%. This has enabled us to increase the land put under cultivation in these three counties by over 100%.

We have found it a very satisfactory means of helping our people and have also found it to our benefit, as the crops raised have in turn brought in considerable foreign money, and has made our country more prosperous for the past year than it has ever been before in our history.

The Stone-Ordean-Wells Company, wholesale grocers, Duluth, is carrying on an interesting experiment for supplying its employees with food products. It has rented an 80 acre farm, and enlisted its employees to do the farm work. The Treasurer of the company writes us as follows:

They (the employees) will do the major portion of the work involved, and divide the crop produced on the basis of per capita enlisted. I am studying and watching this community farm with a great deal of interest, believing that it will be of advantage to our men, of advantage to our organization and general advantage to the community and the conditions that have confronted the public for the past year or more. It is only one of many steps that might be taken in the same direction.

### **Food Distribution.**

The question of providing cheaper food for their employees is interesting the managers of industry as never before. It has been driven home to them in the last few years that an increase of wages is easily nullified by an advance

of living costs, and it is apparent that the cost of many foodstuffs to the consumer is out of all proportion to what the producer receives for them. In the case of perishable products, such as fruit and vegetables, the actual waste by decay and condemnation, and because of glutted markets, is a disgrace to us as a people. It is unnecessary and occurs simply because the problem of distribution has never been attacked in comprehensive fashion. It is still an unorganized business, in about the same state it was fifty years ago; except that as the volume becomes greater the confusion, expense and waste increase.

The Baird Hardware Company of Gainesville, Florida, under date May 26th write us as follows:

We fear that the National Government, and probably yourselves, are not familiar with Florida conditions. We are growing garden crops to perfection. In forty days after planting, we can usually begin shipping nearly anything in that line, but this locality does not produce sufficient corn or crops that can be saved to take care of its own requirements.

At this moment we have ready for shipment beans, cucumbers, beets, carrots, eggplant, tomatoes, world without end, and it is utterly out of the question to get hampers in sufficient quantities to move more than 20% of the crop that is already made. The Agricultural Department has had people here urging us to plant gardens. We have always had more gardens than we knew what to do with.

A representative of this bank in Texas sent us a clipping from the *Dallas News* of May 14th which shows the situation in garden products there at that time. It says:

A meeting of all commercial truck growers and farmers who have planted extensive acreage in food crops has been called by C. O. Moser, county agent, for this morning at 10 o'clock at the Chamber of Commerce and Manufacturers' Association Building for the purpose of discussing means of relieving the truck grower from existing conditions.

The called meeting is the outgrowth of a concerted demand by growers that some action be taken to afford them a market for the products they have raised to meet the need for food.

Many growers, besieged the Chamber of Commerce yesterday, demanding that something be done to afford them a sale for their products. D. L. Wier, a truck grower, said the vegetables grown are worth more at present as fertilizer than they are on the market.

"I brought a load to town yesterday morning worth at least \$10 on a wholesale basis and I sold 60c. worth of it. The remainder I carried home and fed to my stock."

One farmer called for John R. Babcock, assistant to the president of the Chamber of Commerce, who was out. He told the person who answered the telephone that he had a wagon load of fresh vegetables which he wanted to give to Mr. Babcock to avoid wasting them by throwing them away.

This was at a time when vegetables were still luxuries throughout the north, and were being brought in train-loads through Texas from California. It is evident that the problem of dis-

tributing food stuffs is directly related to the general industrial situation, and entitled to the attention of the best business brains in the country.

#### Industrial Efficiency.

A well known engineer who is an expert in industrial practice has recently gone on record with the opinion that the industries of the United States on an average are not realizing over 20 per cent. of their possible capacity.

This is a startling statement. If it is true we have enough productive capacity unused to radically change the living conditions of our people. The amount involved in our wage controversies is insignificant in comparison. The war debts would cease to be a problem if these savings could be realized, and capital for revolutionary developments in industry would be quickly available. He says that we have scarcely begun to appreciate the gains that are possible under more effective organization. Comparing the United States and Germany, he says:

During a visit of a body of engineers to Germany in the summer of 1913, to study the industrial conditions in that country, many of us were convinced that not only was the individual efficiency of the American greater than that of the German, but in many cases the amount of work produced per dollar of wages paid to the American workman was even greater, although the wage rate in this country was at least 30 per cent. higher than that in Germany.

In spite of this, the collective or co-operative efficiency of the Germans was evidently enormously greater than that of Americans. The German Government not only encouraged co-operation, but actually forced it; while we, actuated by an antique theory of democracy, not only encouraged individualism, but did all we could to insist upon it, with the result that much of the energy of our community was being dissipated in internal friction.

What he says is confirmed by the policy adopted by the government commissions at Washington. In their efforts to obtain greater efficiency in the industries they have practically suspended the operation of the Sherman anti-trust law. The Supreme Court is said to have concluded not to decide until after the war whether the United States Steel Corporation and the International Harvester Company are organizations in violation of law or not, and meanwhile all the government departments and commissions are urging the industries in all lines to get together and accomplish the economies which the Steel Corporation and the International Harvester were organized to accomplish. This is advantageous no doubt, but the most economical industrial methods should be employed in time of peace as well as in time of war.

The suits against the Steel Corporation and the Harvester Company are prosecuted upon the theory that these concerns are so large as to have it in their power to crush competition and oppress the public, but the lower courts have acquitted both companies of any

such policy. The law officers of the Government claim that it is enough that when the companies were organized they possessed such powers, that objectionable use does not need to be proven; and in one case the lower court has sustained this view.

The government is convicted by its own testimony. The responsibility is not personal, and the various branches of the government are not responsible for each other, but the common sense of the public will expect the government, including the Congress, in the long run to bring its various activities into harmony with each other and into harmony with sound economic policy. If, by cooperation and combination, economies can be accomplished so great that the government is justified in putting that policy into force by arbitrary authority in time of war, it should be possible to accomplish them in time of peace, and the law should be modified to that end, while continuing to protect the public from the abuse of power. In other words, the law should be clearly directed at unfair practices rather than at mere size. At present, if the interpretation of the prosecuting officials is correct, it is wholly repressive.

### **Price Regulation.**

The discussion over the various proposals to regulate prices gets into difficulties when it reaches the details. What are fair prices and fair profits? A percentage basis is usually assumed to be the best determination, but that ignores all differences in costs and efficiency among producers. General Goethals is said to have rejected that basis of compensation for shipbuilders because it is unscientific and extravagant. Under it, the higher the costs the larger the profits.

It is a recognized principle among economists that the price of a commodity at any given time tends to be fixed at a level where it will afford a working profit upon that portion of the market requirement which is produced at the highest cost. There may be, for instance, a wide range of costs in producing and delivering wheat at a certain market, resulting from differences in distance from market, fertility of soil, efficiency of the producers, etc. The price is the same for all wheat, and must be high enough to induce the continued production of the highest-cost portion of the required supply, but as the supply is increased from low-cost sources, production on the margin of the supply is no longer required, the price falls, and the high-cost producer is eliminated.

The same thing occurs in all lines. There is a range of costs, depending on the location of the producer, the character of his equipment, efficiency of management, etc. One producer

may be up-to-date in methods and equipment, perhaps the last in the field, or he may have turned earnings back into improvements, while another has chosen to distribute earnings in dividends with the result that the former has lower operating costs than the latter and correspondingly higher profits when they sell at the same price. That is his reward for being progressive and constitutes the inducement to progress. The constant tendency in industry is toward improvement, lower costs, and the elimination of the high-cost producers. The leaders make the best profits, but all improvements soon become common property, and new leaders are always making the pace.

In a time like this every possible source of supply is brought into use. In the iron business, scores of old, abandoned furnaces and mills have been refitted at much expense and put into operation upon a basis of costs which would have been prohibitory at any other time in the last thirty years, and when the war is over they will be abandoned again. For the time being, however, they are needed, and prices must be high enough to allow them to work.

### **Costs and Profits.**

The same is true in other lines. There are great differences in the costs of mining coal, and corresponding differences in profits. As a general rule in the manufacturing industries the fact that a producer enjoys unusual profits is proof, not that he is extortionate in his selling policies, but that he is a leader in low cost production, and therefore rendering a greater public service than a competitor whose profits are less.

If it is true that our industries are far below their possible output, and that not only industrial but living conditions may be revolutionized by bringing the average up to the level of the best, the public cannot afford to discriminate against efficiency, in its plans for taxation or regulation. Allowance, indeed, must be made for war conditions and necessities; taxation cannot be scrutinized as critically in all its bearings as in time of peace; it is true that in time of great national peril the government must look for money where money is, and that war-time profits are not to be judged on just the same basis as peace-time profits. But it is well to keep an understanding of sound principles even when they must be compromised, and this is particularly true in view of the certainty that the same kind of taxes will be advocated for permanent adoption. A graded scale of taxation, increasing with the percentage of profit in industry, is unsound in principle, because it puts a handicap instead of a premium upon leadership, and penalizes the very methods which the public is interested in having adopted. It is neither just nor according to sound public policy to deny to the efficient producer the difference between his costs and those



of the less economical producers in the same line, but a temporary system of even graduated taxation upon profits is preferable for its simplicity to a complicated system of government price fixing.

#### **High Prices and Production.**

High prices are never welcome to those who have to pay them, but it is a great mistake to consider only their immediate and uncomfortable effects, without regard to the conditions which caused them or the part which high prices play in correcting those conditions. High prices are a sign of scarcity, the only real remedy for scarcity is increased production, and no other agency is so directly effective in stimulating production as high prices. They not only create an inducement but they supply the means of enlarging the productive operations.

Efforts to increase production now, in every line, must be made upon a level of costs that is temporary and abnormal. It is possible to largely increase the winter wheat acreage this fall, but the farmer must make an outlay for seed, labor and machinery possibly one hundred per cent. above normal costs, and take the chance of prices a year from now. He must risk his investment, perhaps go in debt to do it, but we want it done. Any attempt to regulate wheat prices which deters producers from enlarging the area in cultivation will defeat the very purpose in view.

The manufacturer is in the same situation. Much is said of the large nominal profits of 1916, but it is not always understood that they went largely back into the properties. And so, if production is to be increased, the profits of 1917 must be liberally used to the same purpose, upon a scale of costs far above normal. The real value of these profits put back into the industries cannot be told until it is known what the new facilities are worth in normal times.

The Bethlehem Steel Company is an example of a concern which has profited largely by war business, but more than the total of such profits has been put into increase of capacity, and that new capacity for steel and ships is precisely what the country most needs at this time. Our interest at the moment is in having the war conducted with the greatest possible vigor, for if the end can be hastened we will not only save money but save lives. After the war the replacement value of Bethlehem's new capacity probably will not be one-half its book cost.

The level of prices has been affected the world over by war conditions to such an extent that price figures no longer have the meanings with which we are familiar, but most discussion is based on comparisons with old standards. Prices are high or low according to their relation to other prices. The entire table of commodity prices is full of inter-relations, changing constantly. A leading agricultural journal

presents figures to show that even at the very high price of \$16 per hundred weight for hogs the farmer is not getting the present market price for the corn they have consumed. In the same manner the prices of the manufacturer's product are related to the prices of materials, supplies and labor entering into it.

At a time when demand exceeds supply prices are a natural method of regulating consumption and of diverting demands to every possible substitute. The leading statisticians of the grain trade are agreed that the high prices of wheat during the past year have reduced consumption in the United States by about 50,000,000 bushels as compared with the year before. This does not mean that people went hungry, but that consumption was shifted to other foods less affected by the European demand.

Again, rising prices perform a function in inducing more economical consumption. The paper situation is aggravated by the shortage of labor to cut wood. Not enough paper is being made to go around, but the use of cheap print paper has been profuse in this country. While there is serious hardship to publishers in the sudden increase of price, the fact seems to be that there must be a curtailment of consumption somewhere, and that is being accomplished by curtailing free newspaper circulation, by consolidation, etc. Along with an arbitrary system of price-regulation there would have to be an arbitrary system of distribution to determine who should have the goods which might be even more unsatisfactory in many cases than to let high prices work out their effect.

It cannot be too often repeated that in time of scarcity the emphasis is not upon prices but upon production, and policies should center upon the latter, affording inducement and stimulus, and avoiding the creation of risks and deterrents.

#### **Financial Affairs.**

The money market has been having unparalleled demands upon it during the last month, but with the help of the facilities of the Federal reserve system they have been met with scarcely noteworthy disturbance. Income taxes and payments upon the government loans made the transfers from the banks to the government very large and the pending mid-year interest and dividend payments have caused a temporary tie-up of funds. Finally, the continued rise of prices has made more money and bank credit necessary to handle the country's trade and the slow deliveries of freight have increased the volume of open transactions and accentuated the situation. As a result of this combination of demands, the reserves of the New York clearing house banks fell to the lowest percentage reached since the Federal reserve act went into effect, to wit:

\$41,827,230, with \$128,000,000 of Treasury deposits, against which reserves are not required.\* To keep the money market steady the banks have availed themselves freely of their privileges at the Federal reserve bank. The "bills on hand" of the latter institution were \$35,431,000 on June 1st and \$220,032,000 on June 22nd. The grand total of "bills on hand" of the twelve Federal banks was \$154,964,000 on June 1st and \$435,287,000 on June 22nd.

The situation was also supported by the timely resumption of gold shipments from Ottawa, aggregating approximately \$100,000,000 between the 15th and the 28th. This was pursuant to the well known purpose of the British authorities to contribute gold from time to time as needed to stabilize this money market, and aid it in carrying the heavy volume of credits which this country has undertaken to grant for the prosecution of the war.

Money has been in ready and ample supply to take care of the usual needs, but rates have been higher. For time money a 6 per cent. rate was established until after the payments on the government loan on the 28th were completed, since when there has been an easier tendency, ranging from 6 down to 5. The call market has ranged from 4 to 6 per cent., closing the month at 4 to 4½.

Although under the terms of the Liberty Loan only 20 per cent. was required to be paid up to this time, a much larger proportion has been paid. In fact, in the New York district 85 per cent. of the full amount has been paid into the Treasury, although a large share of these payments represent money advanced by the banks upon the security of the bonds. In other words, the subscribers have borrowed of the banks, and the banks have made payment to the Treasury, largely in the Treasury certificates of indebtedness. The exact figures of payments in this district to and including June 28th are \$146,902,280 in cash and \$403,128,000 in Treasury certificates, a total of \$550,030,280 upon the total allotment of \$621,218,600.

The Clearing House statement of June 30th reflected the operations of the week by showing an increase of \$115,317,000 in loans, of \$63,995,000 in reserves and of \$62,987,000 in surplus reserves. Treasury deposits rose from \$128,067,000 to \$325,076,000. The gain in the reserve surplus was due to the fact that the increase in loans represented payments to the government, which were re-deposited and did not require legal reserves.

With these Liberty loan payments, and the other financing incidental to the midyear settlements out of the way the market can look forward to several months of routine conditions, when the tendency should be toward liquidation and comparative ease, although cheap money is not likely to be seen in New York again until the war is over.

\* Clearing House statement June 23rd.

A new factor in the situation is borrowing by railroads to finance their pressing needs for supplies and equipment. The bond market is so unfavorable that they cannot afford to offer long time securities, and are obliged to resort to banking accommodations.

#### Federal Reserve Amendments.

The long pending amendments to the Federal reserve act have been adopted, and have gone into effect. Nothing now counts as legal reserve for a member bank but a credit at the Federal reserve bank of its district. For the banks in the three central reserve cities the required reserves against demand deposits are reduced from 18 per cent. to 13, for the reserve cities they are reduced from 15 to 10, and for all other members they are reduced from 12 to 7. These reductions are made because the banks will still be obliged to carry for their own convenience as counter cash sums equal approximately to the amount of the reductions. Since, however, cash in vault will no longer count as legal reserve, the banks will be naturally inclined to keep only what is necessary and forward the balance to the reserve bank, and it is expected that a very important further concentration of gold in the reserve bank will result. It is calculated that these banks will gain over \$300,000,000 from this source, and further gains are anticipated by the accessions of state banks to the system. Moreover, as there will be less reason for member banks to hold on to gold certificates than heretofore, it is believed that they will co-operate to withdraw gold certificates from circulation, forwarding them to the reserve banks, and substituting Federal reserve notes in circulation. If the banks will join in this movement several hundred millions more can be added to the gold reserves of the system. It is very desirable that this be done.

The much vexed check controversy ended in victory to the Federal reserve board, whose authority over exchange charges is confirmed.

It is expected that reserve bank branches will be established at an early day at Baltimore, Louisville, Seattle or Portland and perhaps Spokane.

The supreme court of the United States has sustained the provision of the federal reserve act which authorizes national banks to perform the functions of trustees in all states.

#### Growth of Reserve System.

When the Federal reserve system was inaugurated in November, 1914, the member banks were given three years in which to transfer their out-of-town reserves to the new banks, therefore the last transfer was not due until November next. By the new reserve provisions this transfer is required at once, but the reserve board has given notice that no penalties for reserve deficiencies will be imposed until after July 15. The transfer, however, is now practically complete.



The growth of the Federal reserve system is shown by the following consolidated table of the principal items of the statement for the twelve banks, on the dates named.

	Jan. 8, 1915	Jan. 7, 1916	June 22, 1917
Total gold reserve*.....	\$232,553,000	\$354,418,000	\$813,252,000
Total cash reserve*.....	250,550,000	367,306,000	848,932,000
Cash reserve with agent.....	14,676,000	199,690,000	390,765,000
All earning assets.....	16,343,000	89,410,000	552,649,000
Member bank reserves.....	267,389,000	407,244,000	806,209,000
Government deposits.....	.....	15,101,000	495,807,000
Federal reserve notes in circulation.....	16,530,000	188,516,000	499,721,000

#### New York Clearing House Banks.

We give below the figures for the principal items of the statement of the New York Clearing House banks, at dates named:

	Jan. 9, 1915	Jan. 8, 1916	June 23, 1917
Loans.....	\$2,184,206,000	\$3,254,190,000	\$3,813,611,000
Net demand deposits.....	2,017,084,000	3,311,220,000	3,439,596,000
Cash reserve.....	337,582,000	503,679,000	295,111,000
Reserve in deposits.....	132,972,000	223,749,000	333,752,000
Total reserve.....	470,554,000	727,428,000	628,863,000
Surplus reserve.....	120,579,810	153,822,260	41,827,230

It will be seen that if the cash holdings of the Federal reserve bank of New York as reported in its statement for January 8, 1915, be added to the cash holdings of the New York Clearing House banks on January 9, 1915, the total is \$424,585,000, while on June 22, 1917, the aggregate cash holdings of the same institutions, including the reserve bank's share of the gold settlement fund at Washington, and its gold with foreign agencies, was \$711,983,000, a gain of \$287,398,000. But between these dates more than \$1,600,000,000 was imported at New York from foreign countries. This goes to show how mistaken is the view sometimes expressed that New York has profited more than other sections of the country by these importations and the great volume of business which occasioned them. These gold importations have come in payment for the products of the country. They have represented immense purchases, at high prices, of grain, meat, horses, copper, silver, iron, and a great variety of things. Every section has had its share, as the growth of bank deposits and bank cash will show.

#### General Business Conditions.

General business conditions must be considered to have improved in the last month, although strikes in the copper industry, with a demand for \$1.00 per hour and a six hour day, sound like an echo from Russia. The most important feature of the business situation just now is the satisfactory progress being made by the crops. Although they had a late start, on the whole the outlook for all crops has seldom been better on July 1st than it is now. There are few spots in the country at this writing where a good yield is not promised. If the promise is realized

\* The reserve in hands of the agent on June 22 should be added to the figures of gold and cash reserves to obtain the totals.

we should have lower food prices during the coming year than in the year past, and no other single factor could be so helpful and reassuring in the industrial situation.

The volume of business is enormous, and on the whole increasing. The reactionary symptoms which have been noted in some quarters merely represent a shifting of activity. May building permits in principal cities fell off over 30 per cent. as compared with May of last year, but inability to get steel and other materials had more to do with it than even the high cost of materials. The automobile business has been unfavorably affected, but the truck business has been greatly stimulated and aeroplane construction will give work to many shops. The falling off in the demand for sheet steel for automobiles has relieved the tin can manufacturers and canning industry from threatened shortage.

The government requirements in the steel industry are seriously interfering with private business and have caused insistent bidding for pig iron and steel at prices that have seemed to have no limit. The spectacular figures are given more importance than they deserve, as they relate to early deliveries and apply to a comparatively small volume of business. The steel mills are so completely sold up that there is but little product or capacity available, and the consumer who is trying to break in for early accommodation has a hard time in getting his wants supplied at any price. He and others like him make the prices by bidding against each other, and in desperate efforts to find some manufacturer who can be tempted to push lower-priced work to one side to serve them. The producers of steel, oil, coal and copper have been on tenter-hooks over the price situation at Washington, which has gotten beyond the question of prices upon this government's own supplies, and now includes prices upon supplies for foreign governments and the general market.

#### The Railroads.

The Federal Trade Commission perpetrated a surprise by submitting a recommendation that the government take over the railroads and operate them. The advantages of coordinate operations are already secured by the organization of the roads under the management of a committee of the most experienced railroad men in the country and as the Trade Commission does not propose to substitute government management it is not evident how gains would be accomplished.

As a matter of fact traffic conditions are much improved, although still far from satisfactory. The output of the country's industries has been rapidly increasing while the physical capacity of the railroads is practically, for the time, at a limit. Notwithstanding the fact that traffic cannot be handled to the best advantage when the terminals are congested and tracks are overcrowded, the volume of freight is much above

all past records. The earnings are proof of this, as freight rates are no higher than a year ago. Furthermore, these higher earnings are made on a higher proportion of low class freight. The roads handled 24 per cent. more coal in May than in the same month of last year, and the traffic last year was the largest on record. A showing of this kind is not one of incompetency or failure. The principal railroads have expended enormous sums in the last fifteen years in the enlargement of their facilities, but the expansion of the country's business has outrun all calculations.

Nobody questions that the railroad situation is critical. It is more critical than most of the critics know. They easily throw the blame on the railroad managers, but the latter, who have been facing rising costs on the one hand and an unfavorable money market on the other, have been up against the real problem. The railroad situation has needed to be treated on a very large scale, and railroad managers have not had the money to do more than they have done.

The Inter-State Commerce Commission has denied the petition for high freight rates on the ground that earnings have improved in recent months and that the need for the requested advance is not demonstrated. The decision says that if net earnings had continued on the basis of February, higher rates would have been necessary. Certain advances are allowed in eastern territory, but the horizontal increase is suspended until October 28th, with the intimation that if the situation becomes more unfavorable the case will be considered again.

#### Inland Water Transportation.

In view of the enormous pressure upon the railways at this time, the Advisory Commission of the Council of National Defense has caused to be organized a Committee upon Inland Water Transportation, to develop so far as practicable an immediate use of the waterways which can be utilized. The Committee as at present constituted consists of Gen. W. M. Black, Chief of Engineering, United States Army; George E. Bartol, Philadelphia; Capt. J. F. Ellison, Cincinnati; Joy Morton, Chicago; J. E. Smith, St. Louis; Walter S. Dickey, Kansas City, and M. J. Sanders, New Orleans. Other appointments are to be made, but the Committee organized temporarily by electing Mr. Dickey as Chairman, and Colonel Keller, of the U. S. Engineers, representing Gen. Black, as Secretary.

The Committee has begun with steps to organize for the movement of freight on the Mississippi river and its tributaries and on the New York barge canal. A traffic manager for the Mississippi river has been engaged, and the co-operation of the important cities is being solicited for the support of barge lines between New Orleans, St. Louis, and the Twin Cities. The

War Department has placed at the command of the public in this locality a fleet of 12 steel barges, of 650 tons displacement each, together with two towboats, and in conjunction with the St. Louis Chamber of Commerce is negotiating to use this fleet for carrying coal from the Illinois fields to the Twin Cities and iron ore as return freight to St. Louis. Heretofore these materials have not been carried commercially upon the upper Mississippi River, the efforts therefore constitute a new departure and there are many practical difficulties which must be overcome before the movement of freight can actually start. It is believed, however, that the plans are approaching a successful culmination. The Committee has established an agency at Cincinnati for the purpose of promoting the commercial use of the Ohio and Tennessee River, and will soon have an experienced traffic man in that field to go over the territory and aid in the preparation of such plans as seem advisable in the light of information gained.

Another member of the Committee has been engaged in investigations in regard to stimulating the use of the New York State barge canal and of various sections of the intra-coastal route. Plans for boats are under way, and the co-operation of the government is hoped for in securing their speedy construction.

The studies of the committee have developed many difficulties which must be remedied before water transportation can be successfully maintained. These include marine insurance, towage, suitable terminals, etc. The attitude of the railroads toward competing water lines has been the subject of much discussion, and the Executive Committee of the Special Committee of the American Railway Association has issued the following statement to all railroads:—

"The position of the railroads regarding commercial transportation on the navigable waters of the United States is that they will welcome any practicable water transportation and are prepared to cooperate cordially with responsible persons or corporations who may provide such water transportation, by the exchange of traffic, the assurance of joint through bills of lading, and, if necessary, where conditions justify it, by joining the water carriers in the building of tracks to connect the railroads with the wharves and landings of water carriers."

This statement has been extensively circulated and will undoubtedly serve to allay the fear of some who might otherwise hesitate to divert business to the waterways.

Chairman Daniel Willard of the Advisory Commission to the Council of National Defense, at the first meeting, said:

"The railroads of the United States, operated as one system, are carrying more freight than ever before in the history of the country, but when they have carried traffic up to 100 per cent. of their capacity there still remains 15, 25, perhaps 30, per cent. of traffic which it is impossible for them to carry at all. When conditions are normal again, I suppose we shall be competing for traffic the same

**STATEMENT OF RESOURCES AND LIABILITIES OF EACH OF THE TWELVE FEDERAL  
RESERVE BANKS AT THE CLOSE OF BUSINESS JUNE 29, 1917.**  
(In Thousands of Dollars)

RESOURCES	Boston	N. Y.	Phila.	Clev'd	Rich'd	Atlanta	Chicago	St. Louis	M'npl's	Kas.City	Dallas	S.Fr'sco	Total
Gold coin and certificates in vault.....	29,952	286,368	30,169	23,938	6,353	7,731	40,801	11,407	14,092	8,419	10,000	15,036	484,264
Gold Settlement Fund.....	47,357	34,902	31,095	49,229	25,084	5,557	45,652	20,617	15,192	30,582	17,500	23,078	345,945
Gold with foreign agencies	3,675	18,312	3,675	4,725	1,837	1,500	7,350	2,100	2,100	2,500	1,838	2,750	52,362
Total gold held by banks Gold with Federal Reserve Agents.....	80,984	339,580	64,939	77,892	33,274	14,788	93,803	34,124	31,384	41,501	29,338	40,864	882,471
Gold Redemption Fund ..	22,400	139,252	33,606	34,428	7,372	16,320	62,003	9,472	21,576	14,830	16,986	24,388	402,603
	500	5,250	450	49	755	272	226	196	208	1,331	143	22	9,402
Total gold reserves.....	103,944	484,082	98,995	112,369	41,401	31,380	156,032	43,722	53,168	57,662	43,467	65,274	1,294,566
Legal tender notes, Silver, etc.....	2,520	26,534	1,285	308	198	645	3,447	3,358	114	208	1,083	140	39,840
Total Reserves.....	106,464	510,616	100,280	112,677	41,599	32,025	159,479	47,150	53,282	57,870	47,550	65,414	1,334,406
Bills discounted, Members	18,773	78,122	22,334	9,363	12,042	3,755	18,118	5,713	10,139	5,570	4,282	8,981	197,242
Bills bought in open market	16,411	102,587	9,087	11,133	5,868	1,850	23,923	5,471	1,449	11,837	623	7,031	202,270
Total bills on hand.....	35,184	180,709	31,421	20,496	17,910	5,605	47,041	11,184	11,638	17,407	4,905	16,012	399,512
U. S. Government long-term securities.....	530	1,306	549	5,853	1,152	698	7,007	2,233	1,857	8,842	3,970	2,429	36,426
U. S. Government short-term securities.....	2,194	5,294	2,548	1,891	1,969	3,015	2,985	1,444	1,420	4,284	1,430	5,828	34,302
Municipal Warrants.....		366	158	1,268	15	1	152	212		51	20	203	2,446
Loans on gold coin and bullion.....		21,850											
Total Earning Assets	37,908	200,525	34,678	29,508	21,046	9,319	57,185	15,073	14,915	30,584	10,325	24,472	494,538
Due fr. other F. R. Bks. net	2,069		3,323	1,046	1,423	5,212	9,845			2,436	555	3,649	1,448
Uncollected items.....	16,924	42,197	25,915	17,229	11,090	10,558	44,737	13,699	6,794	11,829	6,256	14,477	221,705
Total deductions from gross deposits.....	18,989	42,197	29,238	18,275	12,513	15,770	54,582	13,699	6,794	14,265	6,811	18,126	223,153
5% redemption fund—F. R. bank notes.....										400	100		500
All other resources.....					118	40	388			40	233		799
<b>TOTAL RESOURCES.....</b>	<b>163,361</b>	<b>762,338</b>	<b>164,194</b>	<b>160,460</b>	<b>75,276</b>	<b>57,154</b>	<b>271,614</b>	<b>75,922</b>	<b>74,991</b>	<b>103,159</b>	<b>65,019</b>	<b>108,012</b>	<b>2,053,394</b>
<b>LIABILITIES</b>													
Capital Paid in.....	5,112	12,063	5,270	6,247	3,436	2,389	7,062	3,243	2,469	3,168	2,755	3,962	57,176
Government Deposits.....	45,694	31,924	40,154	17,254	12,315	5,946	60,028	9,272	14,559	13,547	16,274	33,999	300,968
Due to members—reserve account.....	75,727	442,007	54,209	90,956	33,194	23,332	127,475	36,812	29,154	53,419	23,370	43,805	1,033,480
Collection items.....	12,041	40,553	24,597	13,025	9,547	6,640	15,315	8,142	5,063	6,748	3,520	4,346	149,527
Due to other F. R. Bk's net		26,894						1,212					
Total Gross Deposits.....	133,462	541,378	118,960	121,235	55,056	35,918	202,818	55,438	48,766	73,714	43,164	82,150	1,483,953
F. R. Notes in actual circulation.....	24,530	207,172	39,704	32,916	16,784	18,847	61,734	17,237	23,712	25,343	19,100	21,728	508,907
F. R. Bank Notes in circulation, net liability.....										934			934
All other Liabilities incl. Foreign Govern't credits	257	1,725	260	62				4	41			172	2,524
<b>TOTAL LIABILITIES.....</b>	<b>163,361</b>	<b>762,338</b>	<b>164,194</b>	<b>160,460</b>	<b>75,276</b>	<b>57,154</b>	<b>271,614</b>	<b>75,922</b>	<b>74,991</b>	<b>103,159</b>	<b>65,019</b>	<b>108,012</b>	<b>2,053,394</b>

(a) Total Reserve notes in circulation, 508,807

(b) Difference between net amounts due from and net amounts due to other Federal Reserve Banks, 1,448: The Gold Reserve against net deposit Liabilities is 69.95; Gold and lawful money reserve against net deposit liabilities 73.15. Gold Reserve against Federal Reserve Notes in actual circulation, 81.05.

(c) Bills discounted and bought; municipal warrants: 1—15 days 172,174; 16—30 days 54,886; 31—60 days 91,472; 61—90 days 71,406; over 90 days 4,980. Total 401,958.

as we have done in the past, but I can assure you that so long as the war lasts, the railroads of the United States will co-operate to the fullest possible extent with the waterways of the country in order that the needs of the country may be served."

The conditions are far more favorable for giving a profitable volume of business to water carriers than ever before, and results of permanent benefit may come from this effort. The interest and co-operation of shippers is invited.

#### **Bond Market Conditions.**

The general bond market has been in a state of lethargy, due to the absorption of all interest

in the Liberty Loan. The prices of the outstanding United States issues naturally have been depressed, and particularly those not possessing the circulation privilege. A few days before our declaration of war the Panama 3s sold as high as 103¼ and sales have since been made as low as 87. This is mainly because these bonds do not, like the Liberty Loan, have the privilege of conversion into any issue of higher rate which may be offered. The profits upon bank circulation based upon either the 2s or 4s are the highest they have ever been, being about \$1,800 and \$1,300 respectively on every \$100,000 of circulation issued.

**THE NATIONAL CITY BANK OF NEW YORK**



## "City Bank Service."

**T**HE Liberty Loan is an accomplished success. The Red Cross subscriptions far exceed the request for \$100,000,000.

The investors, the public spirited, the frugal and thrifty citizens of this country, probably more than 3,000,000 of them, have come to the support of the nation in war.

Home industries, transportation, public utilities and our cities and states must also secure funds to meet changing conditions and financial obligations.

A marked fall in bond prices has taken place since January of this year. In loaning funds through the purchase of bonds, the corresponding increase in the yield from the investment, makes present prices seem attractive.

Our list B-58 showing changes will be sent upon request.

## The National City Company

National City Bank Building, New York

### CORRESPONDENT OFFICES

PHILADELPHIA, PA. 1421 Chestnut St.	BOSTON, MASS. 10 State Street	BALTIMORE, MD. Munsey Bldg.	CHICAGO, ILL. 137 So. La Salle St.	SAN FRANCISCO, CAL. 424 California St.
PITTSBURGH, PA. Farmers Bank Bldg.	ALBANY, N. Y. Dowd Bldg.	BUFFALO, N. Y. Marine Bank Bldg.	CLEVELAND, OHIO Guardian Bldg.	DETROIT, MICH. Dime Bank Bldg.
WILKES-BARRE, PA. Miners Bank Bldg.	KANSAS CITY, MO. Republic Bldg.	SEATTLE, WASH. Hogo Bldg.	MINNEAPOLIS, MINN. McKnight Bldg.	WASHINGTON, D. C. 741-15th St. N. W.
PORTLAND, ORE. Railway Exchange Bldg.	ATLANTA, GA. Trust Co. of Georgia Bldg.	LOS ANGELES, CAL. Hibernian Bldg.	ST. LOUIS, MO. Bank of Commerce Bldg.	DENVER, COLO. First Natl. Bank Bldg.

LONDON, ENG. 3 Lombard Street

